

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 EURE-00 SAM-01 SP-02 AID-05 EB-07

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04

OPIC-06 LAB-04 SIL-01 TAR-01 AGR-10 FTC-01 OPR-02

DODE-00 PA-02 PRS-01 AF-06 L-03 H-02 SEC-01 /133 W

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC 4956

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID UNN

AMCONSUL OPORTO

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AMEMBASSY ROME

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E.O. 11652: N/A

TAGS: ECON, PO

SUBJECT: EMERGENCY ECONOMIC AUSTERITY PROGRAM

REF LISBON 6739

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SUMMARY: JUST PUBLISHED GOP WORKING DOCUMENT OUTLINED CURRENT

BLEAK ECONOMIC SITUATION AND DISCUSSED CORRECTIVE AUSTERITY MEASURES CENTERED ON PERSONAL CONSUMPTION, ECONOMIC REORGANIZATION, AND PRODUCTIVE INVESTMENT. (TO REVERSE PROJECTED 1975 10-15 PERCENT DROP IN GNP AND AGGRAVATED PAYMENTS DEFICIT, 10 PERCENT DROP IN CONSUMPTION AND \$600 MILLION RISE IN INVESTMENT WILL BE REQUIRED IN 1976.

AUSTERITY PROGRAM TO BE IMPLEMENTED THROUGH REVISED PRICE CONTROL SYSTEM, FURTHER RESTRAINTS ON SALARIES, LIMITATIONS ON COLLECTIVE BARGAINING, INCREASED TAXES, DECREASED CONSUMER GOODS AVAILABILITY (INCLUDING POSSIBLE RATIONING), AND ACCELERATED AND HIGHER TAXES. BALANCE OF PAYMENTS DEFICIT WOULD BE REDUCED BY SOME CHANGES IN ESCUDO RATE AND CONVERTIBILITY, INCREASED IMPORT RESTRICTIONS, EXPORT SUBSIDIES; EXTERNAL FINANCING. HEALTH OF COMPANIES AND FINANCIAL SYSTEM TO BE IMPROVED BY

PRICE INCREASES, BETTER CREDIT TERMS, RESTRUCTURING, MORE ORTHODOX BANK PROCEDURES, OPENING OF BOND MARKET, AND INDEMNIZATIONS. PRIORITY IN REVIVAL OF ECONOMY IS CREATION OF EMPLOYMENT, WITH CIVIL CONSTRUCTION AND EXPORTS PRIMARY SECTORS. PRODUCTIVE INVESTMENTS ARE TO BE SPURRED, WITH PRIVATE SECTOR TO BE ASSURED THROUGH IMPLEMENTATION OF GUARANTEES, LEGISLATION ON WORKER OCCUPATIONS, AND FOREIGN INVESTMENT CODE. COMMENTS IN REFTEL. END SUMMARY.

1. LISBON NEWSPAPER DIARIO DO COMERCIO OF NOVEMBER 10 CARRIED TEXT OF VI PROVISIONAL GOVERNMENT'S EMERGENCY ECONOMIC "PROGRAM" WHICH WAS APPROVED, IN PRINCIPLE, BY COUNCIL OF MINISTERS.

MAIN POINTS:

## 2. INTRODUCTION

A. PREAMBLE EMPHASIZED THAT DOCUMENT IS NOT A "PLAN", BUT A WORKING DOCUMENT FOR DISCUSSIONS AND A MEANS OF COORDINATING DECISIONS. IT COVERS ONLY THOSE SPECIFIC DECISIONS THAT ARE WITHIN PURVIEW OF FINANCE MINISTRY.

B. CAUTION IS EXPRESSED DUE TO UNCERTAIN PUBLIC ACCEPTANCE OF SACRIFICES. CERTAIN "DELICATE" POLICY MEASURES ARE NOT MENTIONED OR ARE ONLY SUMMARIZED. AUSTERITY POLICIES TO BE ACCOMPANIED BY CAMPAIGNS THAT STRESS NECESSITY FOR SACRIFICES AND UNCLASSIFIED

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ATTEMPT TO CHANGE CONSUMPTION PATTERNS. THE AUSTERITY MEASURES SHOULD BE THOSE WHICH HAVE GREATER EFFECT ON PEOPLE WITH RELATIVELY HIGHER INCOMES. EFFECTS THAT NATIONALIZATIONS AND AGRARIAN REFORM HAVE ALREADY HAD ON HIGHER INCOMES SHOULD BE EMPHASIZED. THOSE WITH LOWER INCOMES SHOULD BE PROTECTED BY WAGE ADJUSTMENTS. ESSENTIAL COMMODITIES SHOULD BE RATIONED WHEN NECESSARY.

3. ECONOMIC SITUATION: CURRENT ECONOMY IS CHARACTERIZED BY FALLING GNP (DOWN 10 PERCENT TO 15 PERCENT THIS YEAR), HIGH UNEMPLOYMENT RATE, STABILIZED INFLATION LEVEL, ARGRAVATED BALANCE OF PAYMENTS DEFICIT, GRAVE FINANCIAL DISEQUILIBRIA, AND DIVERSION OF INVESTMENT AND EXPORT RESOURCES INTO CONSUMPTION. IN ORDER TO REDUCE TRADE DEFICIT IN 1976 TO \$980 MILLION (APPROXIMATELY EQUAL TO EMIGRANT REMITTANCES), TO INCREASE INVESTMENT BY \$590 MILLION AND TO RAISE GNP BY 5 PERCENT, CONSUMPTION MUST DROP BY \$1.17 BILLION, OR APPROXIMATELY 10 PERCENT OF ESTIMATED 1975 GNP. AS THIS AMOUNT EXCEEDS ANNUAL CONSUMPTION OF "RICHER" CLASSES, LIVING STANDARD FOR ENTIRE POPULATION, ESPECIALLY MIDDLE CLASSES, WILL DECREASE.

4. REESTABLISHMENT OF ECONOMIC EQUILIBRIA:

A. PRICES/INCOMES: ECONOMY CANNOT BE REVIVED WITHOUT RESTRAINTS ON INCOME AND AN AGGRAVATION OF INFLATION.

(1) PRICES: IT IS CLEARLY IMPOSSIBLE TO CONTINUE COVERING LOSSES WITH CREDITS WHICH CAN NEVER BE REPAYED. PHASED PRICE INCREASES ARE NECESSARY TO RE-ESTABLISH COST/PRICE EQUILIBRIA. PROPOSALS: (A) REVISED PRICE CONTROL SYSTEM - GOVERNMENT ENTITIES MUST HAVE GREATER ROLE IN DETERMINING CERTAIN FUNDAMENTAL PRICES. ECONOMIC COUNCIL OF MINISTERS MUST BE FINAL ARBITER.

(B) SECTORAL PLANNING - TO RESTORE THEIR FINANCIAL HEALTH CERTAIN SECTORS WILL REQUIRE MEDIUM-TERM PROGRAMS LINKED TO INCREASES IN SALARIES AND OTHER COSTS.

(C) PRICE LISTS - LISTS OF GOODS WHOSE PRICES SHOULD BE REVISED  
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OR FROZEN NUSDE IMMEDIATELY PREPARED. POLICY WILL AIM AT AVOIDING PRICE INCREASES FOR ESSENTIALS, BUT PERMITTING THEM FOR LESS ESSENTIAL IMPORTS AND FOR GOODS PRICED FAR BELOW COSTS.

(2) INCOME PROPOSALS: (A) NATIONAL LEVEL - MAXIMUM SALARY IS TO BE REDUCED BY 15 PERCENT, AND CURRENT FREEZE ON SALARIES ABOVE \$490 A MONTH WILL BE MAINTAINED. DOCUMENT PROPOSES STUDY TO REDUCE SALARY DIFFERENTIALS AND MAKE THEM INTERNALLY CONSISTENT. GOAL IS SOCIALIST PRINCIPLE "OF EACH ACCORDING TO HIS WORK".

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC 4957

INFO AMEMBASSY BONN

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B) LABOR - COLLECTIVE BARGAINING NEGOTIATIONS ARE  
TO BE FROZEN UNTIL END OF YEAR. FUTURE LEGISLATION  
IS TO ESTABLISH A MINIMUM TERM FOR LABOR AGREEMENTS AND  
PROVIDE FOR SEMI-ANNUAL WAGE ADJUSTMENTS LINKED TO  
PRICE INDEX. "TEMPORARY" SALARY REDUCTIONS ARE  
FORESEEN WHERE ABSOLUTELY NECESSARY TO FINANCIAL HEALTH  
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OF GOVERNMENT-INTERVENED FIRMS.

C) PENSIONS ARE TO BE PERIODICALLY ADJUSTED.

B. DISPOSABLE INCOMES/CONSUMPTION: RESTRICTIONS WOULD BE IMPOSED - (1) ON DISPOSABLE INCOME THROUGH INCREASED TAXES OR FORCED SAVINGS, TIGHTER INCOMES POLICY, AND GREATER AUSTERITY IN PUBLIC SPENDING; (2) ON CONSUMPTION THROUGH DECREASED AVAILABILITY OF CONSUMER GOODS, RATIONING, AND PRICE INCREASES.

C. REDUCTION OF PUBLIC EXPENDITURES: SPECIFICALLY INCLUDES LIMITATION ON NEW HIRINGS, CARE IN STRUCTURAL CHANGES, RECUTION OR POSTPONEMENT OF NON-PRODUCTIVE INVESTMENTS, AND RESTRAINTS ON STATE SUBSIDIES.

D. INCREASE OF GOVERNMENT RECEIPTS: INCLUDES ACCELERATED PAYMENT OF PERSONAL INCOME TAX, ESTABLISHMENT OF WITHHOLDING SYSTEM FOR CORPORATE TAX, AND INCREASED SALES AND EXCISE TAXES. DEFICIT TO BE FINANCED THROUGH FORCED SAVINGS, FOREIGN AID, AND NEW TREASURY BOND ISSUES.

E. IMPROVEMENT IN BALANCE OF PAYMENTS: (1) FOREIGN EXCHANGE POLICY - THROUGH PREPARATION OF DETAILED FOREIGN EXCHANGE BUDGET; PLANNING FOR BASIC COMMODITY IMPORTS, CREATION OF SPECIAL TOURIST ESCUDO RATE AND POSSIBLE DECLARATION OF ESCUDO INCONVERTIBILITY.

(2) IMPORT RESTRICTIONS - PRINCIPALLY BY INCREASING PRICE OF FUELS AND MAKING PRICE UNIFORM FOR ALL - INCLUDING MILITARY AND CIVIL SERVANTS; CONSERVING ENERGY THROUGH LIMITATION ON WEEKEND DRIVING AND BY RESTRICTING LIGHTING, ENTERTAINMENT, ETC., REVISING IMPORT SURTAXES IN COORDINATION WITH SALES TAX, LIMITING IMPORTS OF AUTOS AND PARTS; AND GREATER STATE PARTICIPATION IN IMPORTING.

(3) EXPORT PROMOTION - THROUGH IMPROVED CONCESSIONS FROM EC; "AGGRESSIVE FINANCIAL SUPPORT" FOR EXPORTABLE GOODS IN SURPLUS; IMPROVED EXPORT INSURANCE AND CREDIT; UNCLASSIFIED

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AND TOURIST PROMOTION.

(4) ATTRACTION OF EMIGRANT REMITTANCES - BY CREATING SPECIAL BANK ACCOUNTS DENOMINATED IN FREELY CONVERTIBLE ESCUDOS OR IN FOREIGN EXCHANGE.

(5) FINANCING OF PAYMENTS DEFICIT - THROUGH FOREIGN FINANCING OF INVESTMENT PROJECTS; IMF; FOREIGN LOANS SECURED BY NATION'S GOLD RESERVES; AND IMPROVED FINANCING TERMS FOR IMPORTS.

F. IMPROVEMENT OF FINANCIAL STABILITY OF COMPANIES: BY VITAL PRICE INCREASES; ESTABLISHING MEDIUM-TERM FINANCIAL PROGRAMS IN NATIONALIZED SECTORS; IMPROVING INVENTORY FINANCING; GIVING LONGER-TERM CREDIT AT BETTER INTEREST RATES; OPENING BOND MARKET; AND SPEEDING UP PAYMENT OF DEBTS.

G. REGAINING OF STABILITY IN FINANCIAL SYSTEM: FINANCIAL SYSTEM IS CHARACTERIZED BY LIQUIDITY PROBLEMS, BANK DEFICITS, UNCONTROLLED MONETARY EXPANSION, AND ABSENCE OF CAPITAL MARKET. FOLLOWING ARE CORRECTIVE PROPOSALS; THE MAJORITY "MUST BE DISCUSSED" WITH BANK UNIONS.

1) RESTRUCTURING - BY CARRYING OUT BANK MERGERS; CREATING FOREIGN TRADE BANK; AND STRENGTHENING MANAGEMENT.

2) REESTABLISHMENT OF CONFIDENCE - THROUGH RETURNING TO PRINCIPLE OF SECRECY; ASSURING FREELY DISPOSABLE DEPOSITS; REDEFINING CRITERIA FOR FREEZING ACCOUNTS; AND ASSURING FREE ACCESS TO SAFE DEPOSIT BOXES.

3) IMPROVEMENT OF LIQUIDITY - BY LAUNCHING CAMPAIGN AGAINST MONEY HOARDING; ESTABLISHING GENERAL SYSTEM OF PAYING INCOME DIRECTLY INTO BANK ACCOUNTS; LOWERING MINIMUM RESERVE REQUIREMENTS; AND IMPROVING CENTRAL BANK SUPPORT FOR MEDIUM TERM INVESTMENTS.

4) REVIVAL OF CAPITAL MARKET - BY OPENING BOND MARKET; DEFINING CRITERIA FOR NATIONALIZATION IDEMNIZATIONS (PROTECTING SMALL STOCKHOLDERS WHILE NOT "BENEFITTING" UNCLASSIFIED

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BIG ONES); PUBLISHING BALANCE SHEETS OF NATIONALIZED COMPANIES; REDEEMING COLONIAL BONDS THAT HAVE STATE GUARANTEE; AND RESOLVING PROBLEM OF INVESTMENT FUNDS (FIDES, ETC.).

5. REVIVAL OF ECONOMY: BECAUSE EMPLOYMENT IS FIRST PRIORITY, SECTORAL REORGANIZATION AND INVESTMENTS ARE INDISPENSABLE, DESPITE RISK OF AGGRAVATING INFLATIONARY TENDENCIES.

A. PRIORITY SECTORS:

(1) CIVIL CONSTRUCTION - ABSOLUTELY VITAL FOR ECONOMIC REVIVAL. IF NECESSARY, "DELICATE PROBLEMS" CONCERNING FINANCING AND DEMAND MUST BE RESOLVED BY "UNORTHODOX" METHODS.

(2) EXPORT SECTORS - SOME OF WHICH MUST BE URGENTLY RECONVERTED.

B. INVESTMENTS: PRIORITY MUST BE FOR PROJECTS WITH GREATEST EMPLOYMENT AND BALANCE OF PAYMENTS IMPACT. LESS TIME MUST BE SPENT ON CHOOSING AMONG ALTERNATIVE PROJECTS. THIS WILL REQUIRE INITIATIVE FROM ALL ENTITIES:

(1) GOVERNMENT - BY ASSURING PROJECT PLANNING (E.G. BY RE-HIRING UNEMPLOYED TECHNICIANS) AND SIMPLIFYING PROCEDURES TO SPUR PACE OF EXECUTION.

(2) PUBLIC COMPANIES - THROUGH RAPID REVIEW OF EXISTING PROJECTS, ARRANGING FOR FINANCING, AND FORCING IMPLEMENTATION.

(3) PRIVATE SECTOR - GOVERNMENT MUST CREATE FAVORABLE CLIMATE. NECESSARY ACTIONS:

(1) REAFFIRMATION, DEFINITION, AND IMPLEMENTATION OF AUGUST 1975 COUNCIL OF MINISTERS RESOLUTION ON GUARANTEES TO PRIVATE SECTOR (LISBON 5216 DTG 061039Z SEPTEMBER 1975).

(2) PUBLICATION OF LEGISLATION DEFENDING COMPANIES FROM WORKER OCCUPATIONS AND ARBITRARY PERSONNEL PURGES; JUDICIAL UNCLASSIFIED

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REGULARIZATION OF EXISTING OCCUPATIONS; AND REGULATION OF WORKER CONTROL OF MANAGEMENT.

(3) REVIEW OF EFFECTIVENESS OF EXISTING DECREES AUTHORIZING GOVERNMENT INTERVENTION IN COMPANIES (LISBON 6412 DTG 301637 OCTOBER 75.)

(4) PROMULGATION OF FOREIGN INVESTMENT CODE.

6. STRUCTURAL DEFINITIONS: TO AVOID "IRREVERSIBLE" ECONOMIC MALFUNCTIONS, GOVERNMENT MUST URGENTLY ISSUE LEGISLATION DEFINING STRUCTURE OF NATIONALIZED COMPANIES AND FIRMS OCCUPIED BY WORKERS.

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## Message Attributes

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